



**2018**  
**RETIREMENT**  
**CONFERENCE**

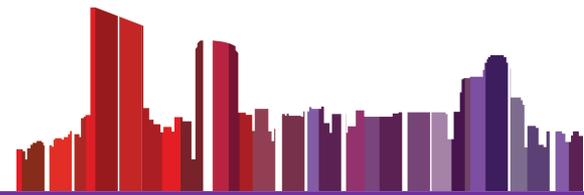
# Retirement Adequacy: Strategies for Effective Plan Design

*John Waugh, Benefit Plan Advisor*

# Agenda

---

- Retirement Plan Considerations
- Finding the Right Retirement Plan Fit
- Ways Behavioral Finance Can Boost Retirement Security
- Keys to a Successful Ongoing Education Plan





# Retirement Plan Considerations

# What do Employees Want in a Retirement Plan?

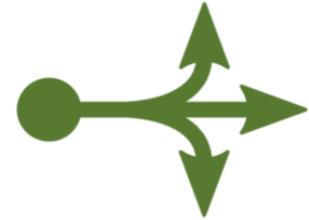
---



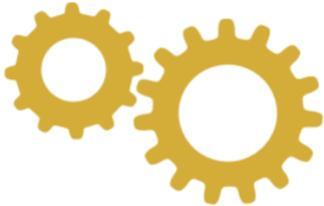
**Benefit Adequacy  
(Income Replacement)**



**Benefit Predictability**



**Flexibility**



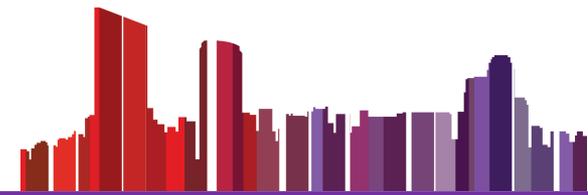
**Simple to  
Understand**



**Portability**



**Education Resources  
and Tools**



# What do Employees Want in a Retirement Provider?



Top five things  
participants value

1

Ability to speak to one provider  
about all of my benefits

2

Quality investment options

3

Investment advice

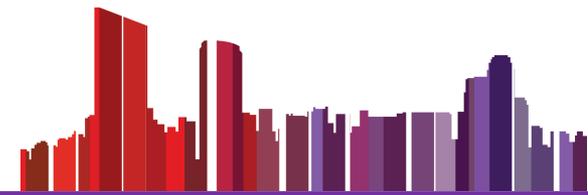
4

Local account representative

5

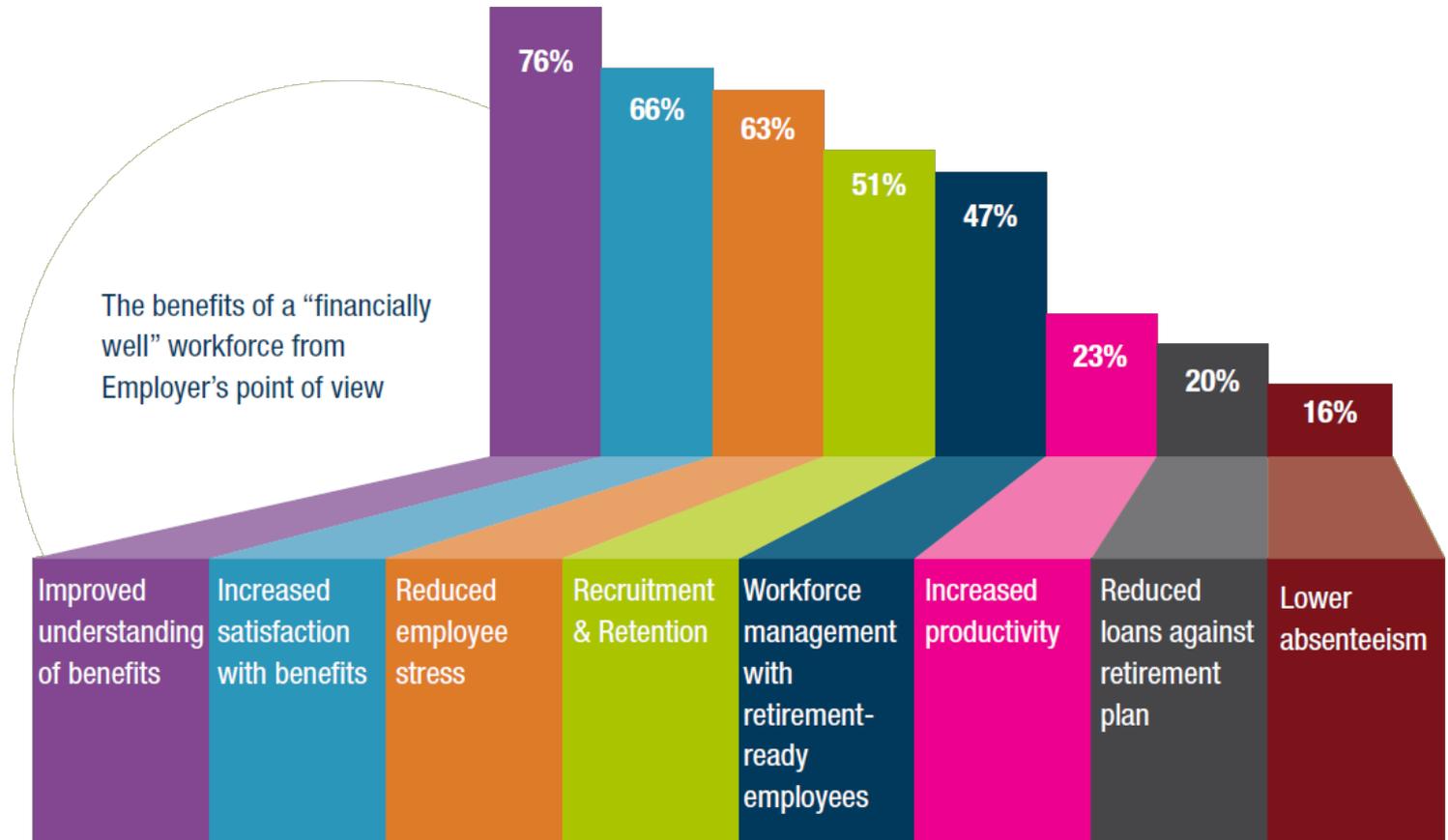
Cost-effective benefits

Source: MERS Voice of the Customer 2018 Annual Survey.

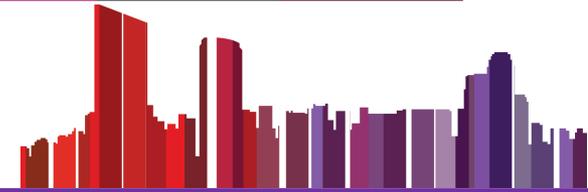


# Providing an Adequate Retirement Plan

*The quality of your retirement plan impacts your workforce*



Source: MERS Voice of the Customer 2018 Annual Survey.



# Finding the Right Retirement Plan Fit



# Fiduciary Responsibility

- A fiduciary is anyone who has discretionary authority over:
  - Plan assets
  - The administration of the plan
  - The management of the plan
- Fiduciaries are subject to standards of conduct and must act on behalf of participants
- Responsibilities:
  - Adherence to Plan Document
  - Investment oversight
  - Ensure reasonable expenses

As the sole fiduciary, MERS provides our members with:



Oversight



Administration



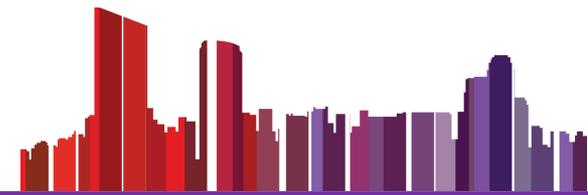
Investment Monitoring



Low Plan Costs



Participant Education



# Plan Design Considerations

---

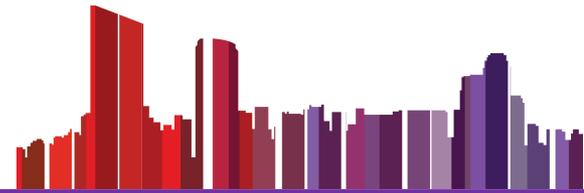
Goal

Plan Eligibility

Contribution Structure

Tax Benefits

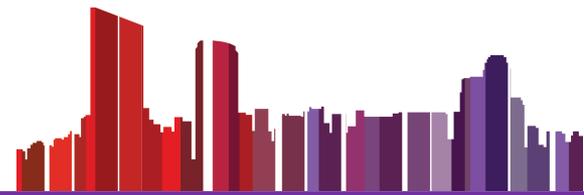
Vesting Schedule



# What is an Adequate Saving Rate?

---

- Rather than aiming for a one-size-fits-all savings rate, it's important to look at how much income a person is likely to need in retirement
- **80% income replacement rate** is the recommended industry standard
- The contribution rate needed to achieve that income replacement rate varies from person to person and depends on several factors:
  - Current age
  - Expected age at retirement
  - Life expectancy
  - Health
  - Cost of health insurance
  - Investment risk tolerance
  - Social Security
  - Other income sources
  - Lifestyle in retirement
  - Debt
- Giving employees the flexibility to choose their savings rate enables them to make the best choices for their individual circumstances

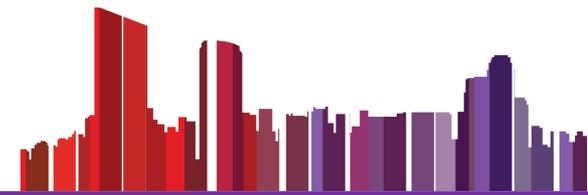




# MERS 457 Program

$$\begin{array}{ccccccc} \text{Voluntary Employee} & & \text{Earnings or} & & & & \\ \text{Contributions} & + & \text{Losses in} & - & \text{Fees} & = & \text{\$ Account Balance} \\ & & \text{the Market} & & & & \end{array}$$

- Voluntary supplemental retirement savings program
- Contributions are made to an invested account, which is managed by the employee
  - Employees deposit either a flat-dollar amount or percent of their pay
  - Contributions can be pre-tax, Roth or a combination of both
- Employees can start, stop or change their contributions at any time



# MERS Defined Contribution *PLUS*

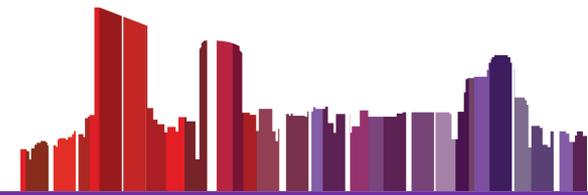
---

## Issue

- Per IRS rules, once an employee's contribution rate has been established in a 401(a) Defined Contribution Plan, it cannot be changed

## Solution

- **MERS Defined Contribution *PLUS*** pairs our Defined Contribution Plan with our 457 Program to provide public sector employees with 401(k)-like flexibility
- With combined reporting and statements, the two programs essentially function as a single plan

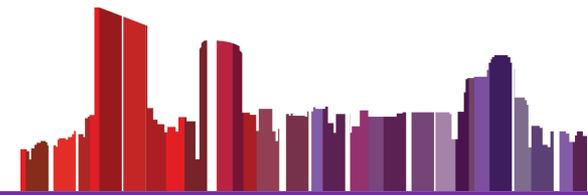


# How Defined Contribution *PLUS* Works

---

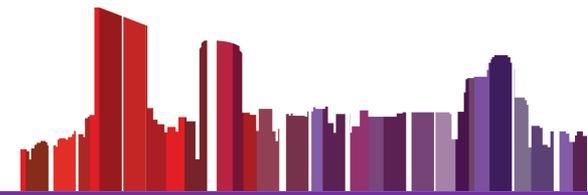
## *Offering an Employer Match to Incentivize Employee Saving*

- Employers establish the contribution structure for the Defined Contribution plan
  - Any employer contributions are deposited into the employee's Defined Contribution account
  - Employee contributions may or may not be required
- Employers can encourage even greater employee participation by offering a match on any voluntary contributions the employee makes
  - Voluntary employee contributions are deposited into the employee's 457 account
  - Employer's matching contributions are deposited into the employee's 401(a) Defined Contribution account



# How does Defined Contribution PLUS Compare?

Plan Feature Comparison			
Plan Type	401(a)	457(b)	Defined Contribution <i>PLUS</i>
Primary Purpose	Qualified Retirement Plan	Supplemental Savings Program	Qualified Retirement Plan with Supplemental Savings Program
Enrollment	Mandatory	Voluntary	Mandatory
Employee Contribution Flexibility	Limited (Choice only at Enrollment)	Complete Flexibility	Complete flexibility over and above minimum required contributions
Required Contributions	Yes	No	Yes
Automatic Enrollment Feature (optional)	n/a	Yes	Yes
Automatic Contribution Escalation (optional)	No	Yes	Yes
Roth Option Available	No	Yes	Yes
Allows Employer Contribution	Yes	Yes (but included as employee earnings)	Yes
Allows Vesting	Yes	Varies	Yes



# Benefits of Defined Contribution *PLUS*

*Combining the Benefits and Flexibility of Both Programs*

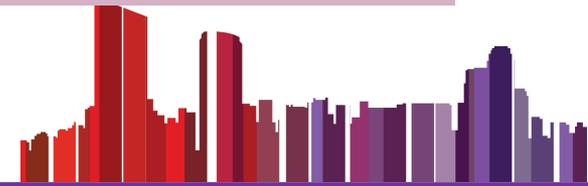
## Employer

- One-stop reporting saves time with Defined Contribution and 457 contributions on one report
- Minimum level of participation in the Defined Contribution Plan can still be required
- A vesting schedule can be applied to all employer contributions
- Loans can be restricted from the Defined Contribution account, while still allowed from the 457 account

## Employee

- Combined statements and online account access make monitoring performance easier
- Employees can contribute up to the current IRS maximum in each plan. (Up to \$55,000 in Defined Contribution and \$18,500 in 457)\*
- Voluntary contributions can start, stop or be changed at any time
- Matching contributions from employer are not taxed as income when received

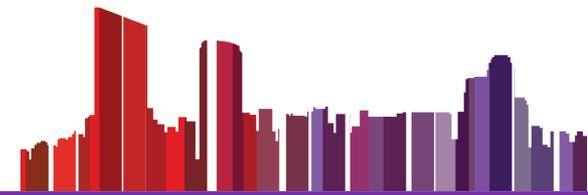
*\*IRS limits for 2018*



# Sample Contribution Structure

- Employees are required to contribute 2%
- Employer will contribute a minimum of 2%
- Employer will match 100% of voluntary contributions, up to a maximum of 5%
- Voluntary employee contributions above 5% are allowed, but will not be matched by the employer

	Required Contributions				
Employee Contributions - Deposited into DC Account	2%				
Employer Contributions - Deposited into DC Account	2%				
	Voluntary Contributions				
Employee Voluntary Contributions - Deposited to 457 Account	0%	1%	5%	7.5%	10%
Employer Matching Contributions - Deposited into DC Account	0%	1%	5%	5%	5%
<b>Total Retirement Contributions</b>	<b>4%</b>	<b>6%</b>	<b>14%</b>	<b>16.5%</b>	<b>19%</b>



# Health Care Savings Program

- Individual, tax-free medical savings account for qualified medical expenses
  - Employees invest **tax-free**
  - Eligible medical expense withdrawals are **tax-free**
  - Employers save on FICA taxes (7.65%)
- Employees can use their account post-employment, regardless of age



# MERS IRA

- Available to **ALL** current and former employees (and their spouses) of municipalities with a MERS retirement product
  - 401(a) Plan (Defined Benefit, Defined Contribution & Hybrid)
  - 457 Program
- Roth and Traditional options
- Invest in low-cost funds on the MERS Investment Menu
- Available **TODAY!**
  - **No employer adoption required**



The image shows a brochure for MERS IRA (Individual Retirement Account). The top left features the MERS logo (Municipal Employees' Retirement System) and the text "IRA (Individual Retirement Account)". To the right is a photograph of a man and a woman smiling and looking at a piggy bank. Below the photo, the text reads "Flexible saving options for you and your spouse". Underneath, it says "Saving with a MERS IRA can help you reach a variety of financial goals:" followed by a bulleted list: "Benefit from tax-free growth or tax-deductible contributions", "Generate income in retirement", "Pay for your children's (or grandchildren's) college education", "Make a down payment on your first home", and "Leave an inheritance for your loved ones". Below this is the section "A Smart Financial Decision" with a piggy bank icon and text: "Opening a MERS IRA is a great way to build retirement security through tax-advantaged saving, with flexible withdrawals that can help you reach your other financial goals at the same time. It is also a smart choice for bringing diversity to your investment portfolio with MERS' professionally-managed, low-cost investment choices. You can contribute any time through check, automated payment, or rollover." At the bottom left of the brochure is "page 1" and at the bottom right is the website "www.mersofmich.com".



**5**

***Ways Behavioral Finance  
Can Boost Retirement  
Security***

# 1

## *Highlight the Benefits/Consequences of Action*

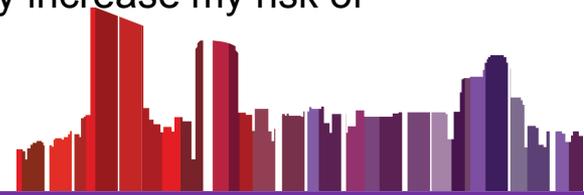
People are naturally loss-averse

### *Case Study: Employer Flu Shot Program*

**42%** **Group 1:** If you get a flu shot you will save \$50 on your co-insurance.  
 I will get a flu shot this Fall

**62%** **Group 2:** If you get a flu shot you will save \$50 on your co-insurance. Place a check in one box:  
 I will get a flu shot this Fall  
 I will not get a flu shot this Fall

**75%** **Group 3:** Place a check in one box:  
 I will get a Flu Shot this Fall to reduce my risk of getting the flu and I want to save \$50  
 I will not get a Flu Shot this Fall even if it means I may increase my risk of getting the flu and I don't want to save \$50



# Enhanced Active Choice

*MERS employs Enhanced Active Choice on our enrollment forms*

## Contribution Information

**Part 1 - Required Defined Contribution amount:** I recognize my participation in the Defined Contribution plan is required. I authorize my employer to deduct the following contribution amount from my gross wages each pay period:

▶ This is my **one-time election** and only my employer may change provisions moving forward. \_\_\_\_\_ % **OR** \$ \_\_\_\_\_ .00

### Want to enjoy a comfortable lifestyle during retirement?

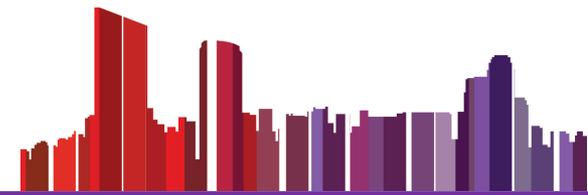
- Yes, I want to save for my non-working years by making voluntary contributions and I will fill out part 2 below.
- No, I understand that by not making voluntary contributions, at this time, means I will retire with less money.

**Part 2 - Voluntary 457 contribution amount:** All contribution changes will be effective as of the first pay period of the month following the date you submit this form to your employer, or as soon as administratively possible. I authorize my employer to deduct the following contribution amount from my gross wages each pay period:

▶ This amount can be **changed at any time**. You may not exceed the maximum contribution permitted by law.

Pre-tax	<input type="checkbox"/> 10%	<input type="checkbox"/> 6%	<input type="checkbox"/> 2%	<input type="checkbox"/> Other: _____ %	<input type="checkbox"/> Dollar Amount: \$ _____
Roth (if adopted)	<input type="checkbox"/> 10%	<input type="checkbox"/> 6%	<input type="checkbox"/> 2%	<input type="checkbox"/> Other: _____ %	<input type="checkbox"/> Dollar Amount: \$ _____

Does your employer offer a matching contribution? If so, consider contributing at least enough to receive the maximum employer match. It's free money!



# Influence Decision Making

*Learning from an experiment with movie goers and popcorn prices*



When presented with a simple choice, most patrons chose the less expensive popcorn.

But introducing a decoy was a game changer!

People perceived so much value in the extra popcorn for only 50¢, they were willing to spend a little more to get a better deal.



# Applying What We Learned from Popcorn

*Can we make saving more for retirement a deal too good to pass up?*

As it turns out, people are influenced more by the ***fear of loss of savings*** than by actual savings!



Influence saving rates by providing an easy comparative win. And extra butter.

Employee Contribution	Employer Contribution	Total
3%	50% match (contributes 1.5%)	4.5%
6%	75% match (contributes 4.5%)	10.5%
7%	<b>100% match</b> (contributes 7%)	<b>14%</b>



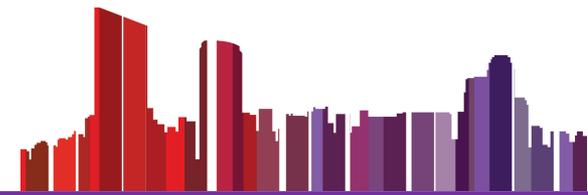
# 2

## Social Influence

- When making choices, people tend to do what they think most other people are doing because they believe there is less chance they will make a wrong choice



- Ideas to implement:
  - *80% of ABC employees contributed more than the required contribution to their retirement last year.*
  - *Nine out of every ten new hires say “yes” to saving 15% of their pay for their retirement.*

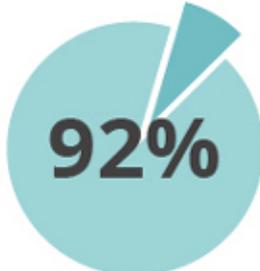


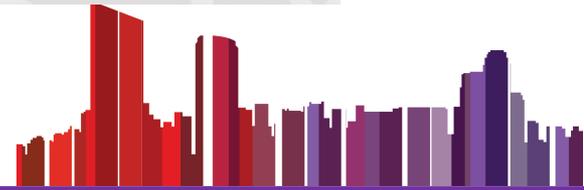
# 3

## Power of Stories and Images

### THE SCIENCE OF STORYTELLING

As more brands make the move towards content marketing, cutting through the noise is more vital than ever before. But our brains are built to connect with compelling stories.

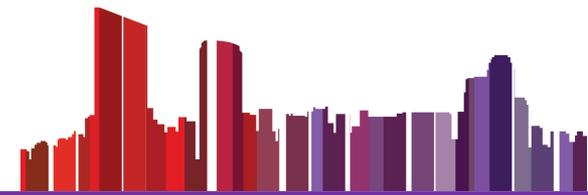
IF	THEN
 <p><b>100,500</b></p> <p>digital words are consumed by the average US citizen every day</p>	 <p>Keep it short (and have a great title to grab readers' attention).</p>
 <p><b>92%</b></p> <p>of consumers want brands to make ads that feel like a story</p>	 <p>Deliver content that is linear and expresses a clear narrative.</p>
 <p><b>60X faster</b></p> <p>rate at which the brain processes images in comparison to words</p>	 <p>Show, don't tell. Use images for more compelling content.</p>



# 4

## Consider Inertia

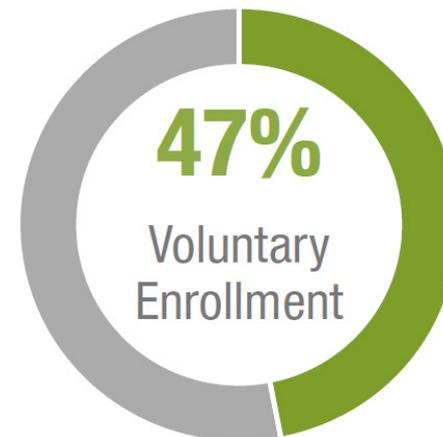
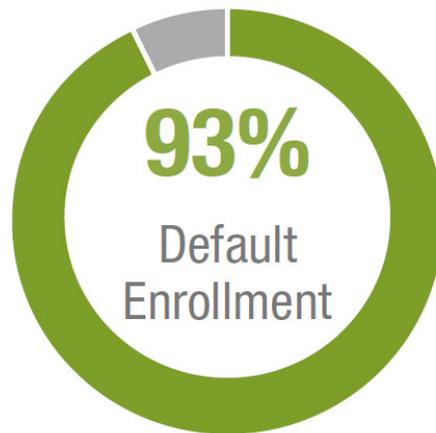
- Inertia is the tendency to stay in the default choice and encompasses people's tendency to choose inaction over action
- What message is your default sending?



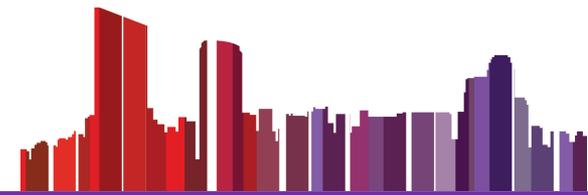
# Automatic Enrollment

*Inertia can be a powerful tool to help your employees*

Plans that use automatic enrollment see participation rates nearly double among new hires

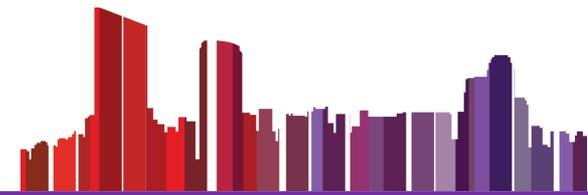
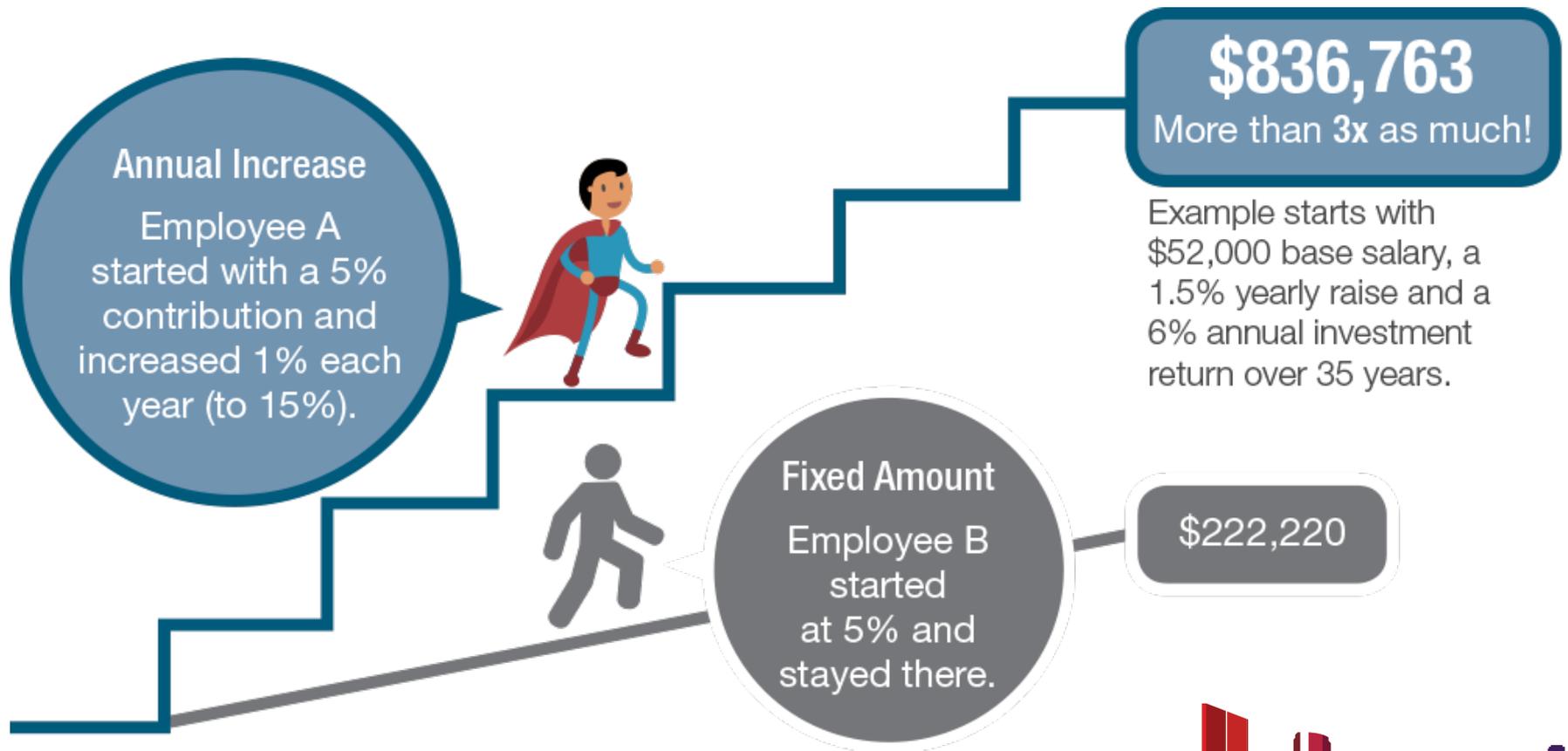


*Source: "Automatic enrollment: The power of the default", Vanguard Research, February 2018.*



# Automatic Escalation

*Auto escalation increases employee contributions every year, placing them on the path to retirement success*



# 5 Avoid Choice Overload

An overload of options can paralyze people or push them into decisions that are against their best interest



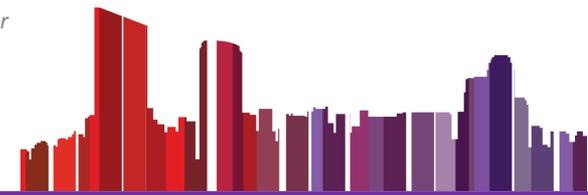
## When Less is Actually More

A study on shopping behavior experimented with jam displays. One table held 24 varieties of jam; the other held only six. The large display attracted more interest, but people were 1/10<sup>th</sup> as likely to buy from the large display as from the small display.

The same principle applies to participation rates in retirement programs. A large number of fund choices actually *discourages participation*.<sup>1, 2</sup>

<sup>1</sup> Mottola, Gary and Utkus, Stephen. "Can There Be Too Much Choice In a Retirement Savings Plan?" The Vanguard Center for Retirement Research, June 2003

<sup>2</sup> Schwartz, Barry. "More Isn't Always Better." Harvard Business Review, 01 June 2006. Web. 24 Feb. 2016



# Simplified Investment Options

- Understanding the decision-making process has helped us design a strategic investment menu
- Grouping investment options into logical categories helps participants easily create fully diversified portfolios

## Investment Categories

1

### *“Do it for me”*

Fully diversified target date funds that automatically adjust over time

2

### *“Help me do it”*

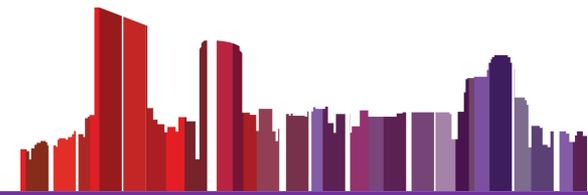
Prebuilt portfolios that are monitored and rebalanced quarterly

3

### *“I’ll do it myself”*

Self-Directed Brokerage Account to access funds outside of MERS\*

*\* Self-directed brokerage account not available under Health Care Savings Program*



# Keys to a Successful Ongoing Education Plan



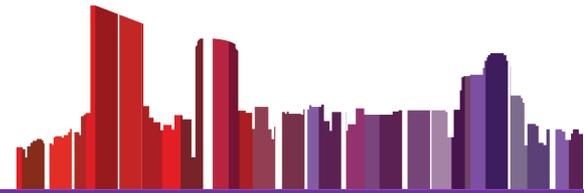
# Participant Education is Key

---

## *Preparing Participants for a Successful Retirement*

- Ensuring that participants understand how their benefit works is a crucial component for building an effective retirement plan
- Higher financial literacy among employees is associated with higher voluntary participation rates or lower quit-rates in automatic enrollment plans
- Financial literacy has a larger effect on saving than a sizable increase in income
- Knowledge of a plan's specific features—such as the employer matching threshold—is also associated with increased saving

*Source: Center for Retirement Research at Boston College*



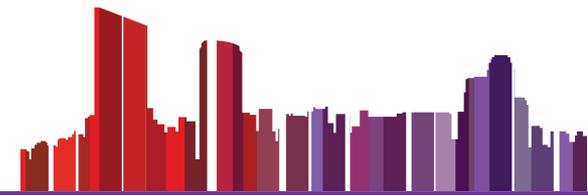
# Employer's Role in Education

---

*MERS is here to help!*

- New hire information
  - Quick enrollment forms
  - Videos
  - Welcome Kits
- Retirement planning information
  - Retirement process publications
  - Webinars
  - Free Pizza & Planning events
- On-site employee education

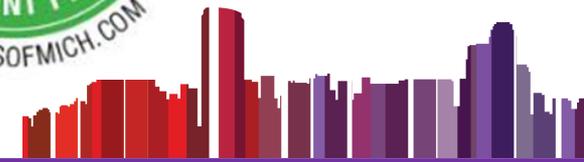
*40% of MERS participants indicated that they learned about MERS educational events from employers*



# Retirement Readiness Reports

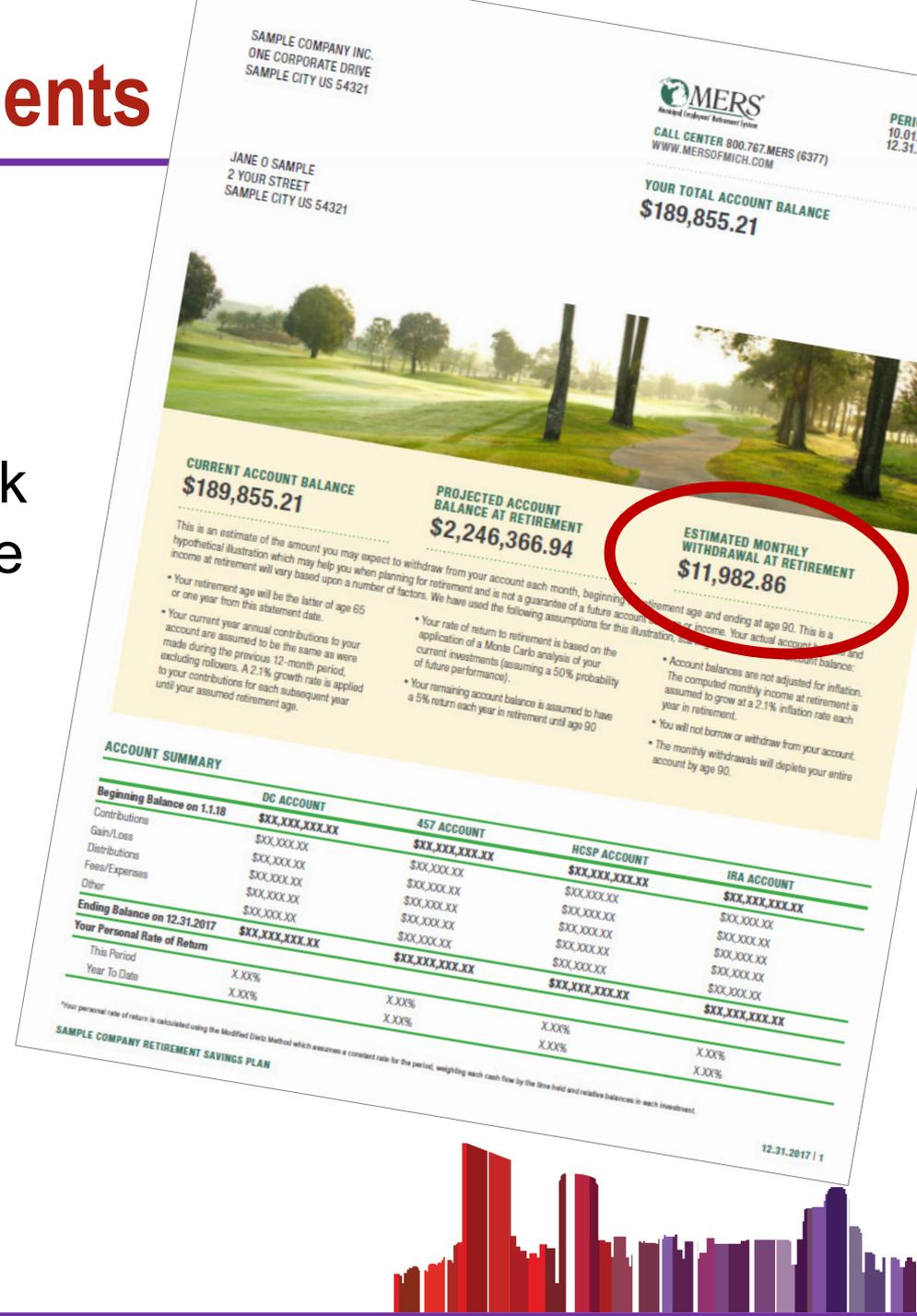
- Retirement readiness Snapshot Reports provide individual guidance at no additional cost to you or your employees
- Employees can then go online and create their Full Picture Report, a free interactive online tool that allows them to develop a comprehensive picture of their retirement readiness
- Using *Guidance Plus*, the report identifies an employee's risk tolerance and provides customized suggestions for improving their preparedness

## Retirement Readiness Snapshot Reports



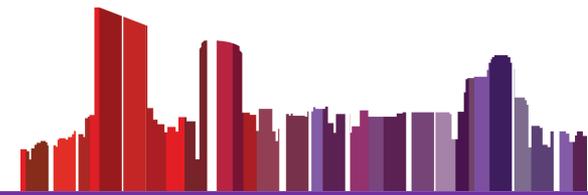
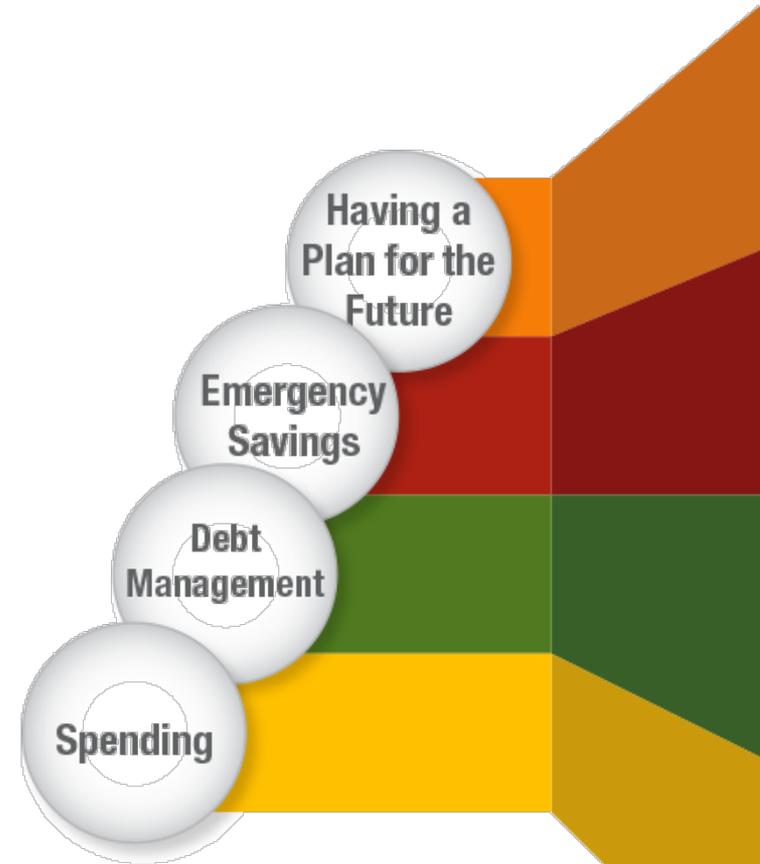
# Consolidated Statements

- Consolidated statements coming Q3 2018
- Will show how participant directed accounts will work together to provide income in retirement
- Includes estimated monthly withdrawal at retirement



# Financial Wellness

- Financial wellness is a program or set of programs designed to improve employees' financial behavior and outcomes while also driving business impact
- MERS offers holistic support to employees so they can meet short-term needs while working toward long-range goals



# Resources



## One Click Away

- To keep up with trending information related to retirement follow us on Facebook, Twitter, LinkedIn and YouTube
- Our website provides helpful calculators and other retirement resources



## Quick Bite Webinars

- Our webinar series delivers online education
- Participants can tune in live and ask questions or view recorded sessions from the library of topics any time



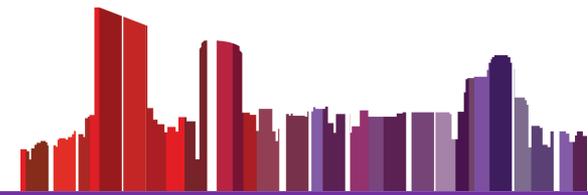
## Pizza & Planning

- Free, local education for employees held after traditional work hours
- Hosted at various locations throughout the state



## On-site education

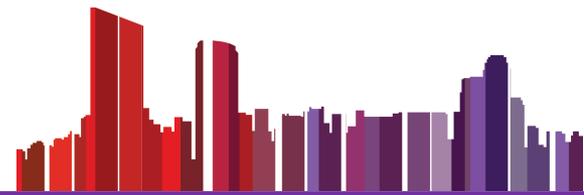
- Group presentation can be held at your location during work hours or whenever is convenient for your employees
- Attend benefit fairs
- One-on-one meetings for all MERS programs



# Key Takeaways

---

- Employees who feel confident about their ability to retire with financial security are happier workers
- There is no “one size fits all” retirement plan
- Empower participants with a plan design that allows them to adjust their savings rate as their situation changes
- Employers can improve participant outcomes by ensuring they understand how their benefit works



# Q & A



# Contacting MERS of Michigan

---

## MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

1134 Municipal Way  
Lansing, MI 48917

800.767.MERS (6377)

[www.mersofmich.com](http://www.mersofmich.com)



*This presentation contains a summary description of MERS benefits, policies or procedures. MERS has made every effort to ensure that the information provided is accurate and up to date. Where the publication conflicts with the relevant Plan Document, the Plan Document controls.*

